THE DEBT DEAL
Implications for Massachusetts

SEPTEMBER 2011

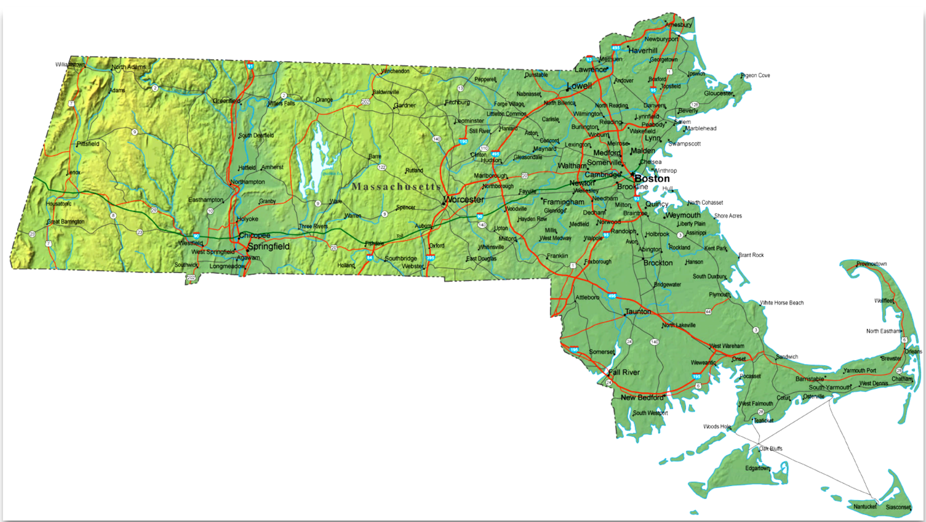

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Table of Contents

Executive Summary

The Budget Control Act of 2011, referred to as the "debt deal," averted what would have been an unprecedented and catastrophic default on our nation's debt by increasing our borrowing ability by at least $2.1 trillion. It also required at least $2.1 trillion in federal spending cuts over the next ten years using a three-step process.

Step 1: $917 billion in federal spending cuts

- The debt deal establishes caps on the amount of money that can be spent through the annual budget process, reducing federal spending on discretionary programs by **$917 billion**. The caps are not placed on specific programs; instead they are placed on two broad categories:
  - **Security Spending:** Department of Defense, Homeland Security, Veterans' Affairs, National Nuclear Security Administration, and foreign affairs.
  - **Non-security:** Domestic spending. The programs that actually get cut will be determined by the regular appropriations process, which is currently underway, and will start to take effect beginning Oct. 1, 2011.
- Programs at risk for cuts, based on what Republicans have already targeted in previous budget plans, include:
  - **National Institutes of Health**, which brings $2.5 billion in medical research funding to Massachusetts and supports 35,000 jobs across the state.
  - **LIHEAP,** which provided over $235 million in heating and cooling assistance for low-income Massachusetts households in 2011.
  - **Clean energy projects**, which have brought $450 million in federal funding to the state over the past two years. There are upwards of 30,000 clean technology jobs in MA.
- Entitlement programs – like Medicare, Medicaid, and Social Security – are not impacted by this round of cuts.

Step 2: The "Super Committee," tasked with reducing the deficit by at least $1.2 trillion

- The debt deal establishes a 12-member, bipartisan Congressional committee, which is tasked with developing a plan to reduce the deficit by **at least $1.2 trillion.** The Super Committee, whose meetings are currently underway, must vote on their proposal by **November 23, 2011.** If

- they pass their plan by simple majority, it will be sent to Congress for a vote that must occur by **December 23, 2011.**
- The Super Committee can propose **spending cuts, tax increases, or any combination of the two.** They could adopt proposals that have been recommended by previous deficit reduction commissions, such as:
  - Raising the Medicare **retirement age** from 65 to 67
  - Reducing Medicare **payments to hospitals** for uncompensated care or for training new doctors
  - Reducing Medicare payments to **nursing homes** and **home health agencies**
  - Turning Medicaid from an entitlement program into a **block grant**, and capping the federal contribution at levels far below the current system
  - **"Blending" federal Medicaid payments** into one (lower) rate per state
- The Super Committee could also choose to **raise taxes** on the wealthiest Americans, **close tax loopholes** that Big Oil and other corporations exploit, or reduce the $700 billion that the government plans to spend on new **nuclear weapons** over the next ten years.

Step 3: Automatic cuts of up to $1.2 trillion, *if* the Super Committee fails to hit its deficit reduction goal

- If the Super Committee fails to report – or Congress fails to pass – a proposal, **$1.2 trillion in automatic spending cuts** will occur beginning Jan. 2013. If the Super Committee proposal falls short of $1.2 trillion, automatic cuts will be enacted to make up the difference.
- Automatic cuts will be split 50-50 between **defense** (DOD and the Nuclear Security Administration) and **non-defense** (domestic) programs.
- Programs that are **exempt** from this round of cuts: **Medicaid** (all of it); **Medicare benefits** (but doctors and hospitals face a **cut of up to 2%**); **Social Security; food stamps; military pay;** and **veterans' benefits.**

Introduction

Over the coming months, crucial decisions will be made about our nation's budget that will have a wide-ranging impact on Massachusetts' healthcare system, education programs, and economy at large. While the Budget Control Act of 2011 (commonly referred to as the "debt deal") prevented our nation from defaulting on its debts, the legislation also requires massive federal spending cuts over the next decade that seriously could jeopardize what is already a sputtering and jobless economic recovery.

Massachusetts has been fortunate in the past few years. While the rest of the nation continues to struggle to spur growth and create jobs, Massachusetts is recovering at a pace twice as fast.[1] This economic good news is a result of Massachusetts' strength in the growth industries of the 21st century - clean energy, telecommunications, healthcare and education. The Commonwealth is an excellent example of the new 21st century economy. It has retooled its economy to become a high tech, clean tech, and life sciences economic epicenter for the nation.

These federal cuts would come at a difficult time for Massachusetts and its residents. Although Massachusetts has fared better than most states with an unemployment rate 1.5 percent lower than the national average, the state's budget nevertheless is stretched by a challenging economic environment. According to the Massachusetts Budget and Policy Center, the state was expected to collect $21.4 billion in tax revenue when FY 2009 began. The recession hit state coffers hard, and the state ended up collecting just over $18.3 billion – nearly 15 percent less than state officials anticipated. In FY 2010, baseline revenue fell by another $500 million.[2]

As revenues decreased because of the economic climate, demand for state services increased. Rising unemployment led to an increased need for safety net services, such as MassHealth for individuals who were laid off and thus lost access to health insurance provided by their employer.

The combination of shrinking revenues and increasing demand for services has forced Massachusetts officials to make difficult budgetary choices. Since the onset of the fiscal crisis, the state has relied on

[1] Robert Gavin, "Mass. Economy Is Growing Twice As Fast As Nation's," Boston Globe. 30 July 2010.
[2] Fiscal Fallout: The Great Recession, Policy Choices, and State Budget Cuts. Massachusetts Budget and Policy Center, 3 Apr. 2011.

$1.5 billion in federal funding that was provided through the Recovery Act, which will come to an end in FY 2012. Even with these measures, the state heads into FY 2012 facing a budget gap of $1.8 billion.[3]

The cuts required by the debt deal will have implications for virtually every sector of the Massachusetts economy, including public health and MassHealth, K-12 and higher education, environmental protection, housing, and the health care and defense industries. Reductions implemented as part of the debt deal will be compounded by the budget cuts already enacted since the onset of the economic crisis and the upcoming reductions proposed in the Governor's FY 2012 budget. The following is an explanation of the process, timeline and scope of the debt deal and an analysis of the new law's potential impact on Massachusetts.

[3] Fiscal Fallout: The Great Recession, Policy Choices, and State Budget Cuts. Massachusetts Budget and Policy Center, 3 Apr. 2011.

STEP 1 - $917 Billion in Spending Cuts

Background

In exchange for raising the debt ceiling by $900 billion, the debt deal requires that federal spending be slashed by $917 billion over the next 10 years, starting with a $21 billion reduction in FY 2012 and a $42 billion reduction in FY 2013. The spending cuts will primarily come from three categories: security spending, non-security spending, and debt service.

The law does not place caps on specific programs; such decisions will be made by Congressional appropriations during the regular budget process. However, the law does lay out broad caps on those categories. Security spending - whose definition includes the Department of Defense (DOD), Department of Veterans Affairs (VA), Department of Homeland Security (DHS), National Nuclear Security Administration (NNSA), and foreign affairs – will be reduced by $350 billion. Non-security spending, or domestic spending that requires annual appropriations, will be reduced by $393 billion. The remainder of the savings comes mainly from debt service - money saved by reducing the principal on our debt. These cuts, which will occur over a period of 10 years, are back-loaded to avoid making major spending reductions while the economic recovery is still precarious.

Mandatory programs – those that do not require annual appropriations - will be left untouched in this round of cuts. These include Medicare, Medicaid, Social Security, food stamps, and Temporary Assistance for Needy Families. Anything else could be on the chopping block.

Massachusetts Impact

Domestic Spending at Risk

National Institutes of Health

The National Institutes of Health (NIH) is an engine of economic growth and job creation. As the world's preeminent medical research institution, NIH is our best hope for finding cures, improving treatments, and gaining a better understanding of the complex causes of diseases that affect millions of Americans. NIH also has a key role to play in our economic recovery, with its 27 institutes supporting more than 350,000 scientists and research personnel nationwide, as well as the acquisition of goods and services from every state. Though Massachusetts ranks 15th in population, it ranks 2nd in the race for federal NIH research dollars. For FY 2010, NIH funding brought $2.5 billion dollars to the Commonwealth and supported 35,000 jobs.

Republicans have already targeted NIH for budget cuts, slashing the agency by $317 million in FY 2011 and jeopardizing countless research projects that already are underway in Massachusetts. For example, at Tufts University in Medford, scientists are working on regenerating bone to fix massive defects caused by injury, illness, or congenital malformations. A company in Malden is currently investigating the role of prenatal alcohol in Sudden Infant Death Syndrome (SIDS) to improve our understanding of a disease that claims the lives of 2,500 newborns every year. These and other research projects could be shelved if NIH is cut further.

Teaching hospitals could also be severely impacted by NIH funding reductions. Of the $2.5 billion in NIH grants that go to Massachusetts awardees each year, approximately half goes to teaching hospitals, which educate and train the next generation of medical professionals, conduct cutting-edge research, and provide care for the nation's most vulnerable and sickest populations. Teaching hospitals in the Boston area include Tufts Medical Center, Cambridge Health Alliance, Massachusetts General Hospital, Boston Medical Center, Beth Israel Deaconess Medical Center, Children's Hospital Boston, Brigham and Women's Hospital, Faulkner Hospital, Lahey Clinic, Massachusetts Eye and Ear Infirmary, Carney Hospital, St. Elizabeth's Medical Center, Dana-Farber Cancer Institute, and VA Boston Healthcare System. Every person in America is one phone call or doctor's visit away from needing the important research these institutions conduct, whether that's improving our ability to diagnose colon cancer at Tufts Medical Center or better managing heart failure at the Brigham.

Clean Energy

There are now upwards of 30,000 jobs in the clean technology sector in Massachusetts.[4] The industry has increased employment by 65 percent in the past three years, becoming the 10th largest sector in Massachusetts. The U.S. Department of Energy has been a major partner in Massachusetts' rise to global leadership in this sector. In the last two years, more than $450 million in federal funding has supported

[4] *Sizing the Clean Economy: A National and Regional Green Jobs Assessment*. Brookings Institute. 13 July 2011.

more than 120 clean energy projects in the state. New programs like the Advanced Research Project Agency—Energy (ARPA-E), which is modeled after the highly successful defense-oriented Defense Advanced Research Projects Agency program, have awarded multi-million dollar research grants to leading Massachusetts companies like FloDesign Wind Turbine, Agrivida, 1366 Technologies, and others. Federal research awards, manufacturing grants, and loan guarantees have helped MIT and A123 Systems develop world-leading vehicle battery technologies that may ultimately break America's addiction to oil. Support from the Department of Energy enabled the establishment of the Wind Technology Testing Center in Charlestown, the foundation of what we hope will become a thriving offshore wind hub.

Republican hostility toward clean energy makes it likely that these programs could be a target for cuts under the debt deal. Since taking control of the House of Representatives in January, Republicans have relentlessly pursued repealing laws and regulations protecting everything from clean water and clean air to energy efficient light bulbs. In April, the House passed the Republican budget blueprint that would slash alternative energy investments by 70 percent in 2012 and 90 percent over the next three years. Then in August, even as Republicans held America's credit hostage and demanded aggressive deficit slashing, they protected the $4 billion in annual tax breaks available to oil and gas companies. Clean energy programs and environmental protections that have supported the development of Massachusetts' blossoming clean energy economy are clearly on the radar for Republican cuts.

Community Services Block Grants

The Community Services Block Grant (CSBG) program, which funds community action programs (CAPs) across the country, could face substantial cuts under the debt deal. CAPS are the federal government's only comprehensive approach to addressing the needs of vulnerable citizens and helping struggling Americans get the services they need to achieve economic security. Last year, these programs provided critical support such as employment services, education, and housing to 20.7 million Americans facing an array of enormous challenges ranging from extreme poverty and disability to lack of employment and shelter. They created or saved 18,432 jobs nationwide.

In FY 2010, in Massachusetts alone, the CSBG program funded 24 community action programs that were able to reach over 600,000 individuals across the State, with a focus on economic self sufficiency, affordable housing for the homeless, and targeted funding for low-income youth.[5]

Action for Boston Community Development (ABCD), a widely respected community services program funded by CSBG, is a great example of this program. ABCD makes a difference for 80,000 individuals and their families in the Commonwealth every day. ABCD supports a network of hundreds of neighborhood offices, Head Start centers, family planning sites, and fuel assistance sites throughout the state, which help residents get back on their feet, find jobs and pay taxes. Moreover, every CSBG dollar is multiplied 20 times over in private and public funds raised to support community programs and meet needs. ABCD is helping more than 26 thousand low-income families survive a bitter winter with its fuel assistance program, launching the Earned Income Tax Credit campaign that will help close to 10,000 working poor families access up to $6,500 each in tax credits, providing Head Start and child care services for 2,400 children and their families, and beginning recruitment for 5,000 inner city youth for the agency's summer jobs and education program. A deep cut would be devastating to low-income individuals across the state.

Low-Income Home Energy Assistance Program

The Low-Income Home Energy Assistance Program (LIHEAP), which already sustained a $400 million reduction in FY 2011, could be targeted for further cuts under the debt deal. LIHEAP provides vital assistance to low-income families to ensure that they can stay healthy and secure during cold winters in the North and hot summers in the South and the Southwest. In Massachusetts, LIHEAP helped approximately 250,000 families heat their homes.[6] This assistance is especially vital in light of skyrocketing energy costs. Over the last five years, the average cost of heating a home with heating oil jumped nearly $1,000, from $1,337 to $2,291. Cutting funding for LIHEAP could force thousands of Massachusetts families to choose between heating and eating.

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[5] *Community Services Block Grant, State Plan and Application*. Department of Housing and Community Development. August 2010. http://www.mass.gov/Ehed/docs/dhcd/cd/csbg/fy2011-2012csbgdraftplan-app.pdf.

[6] *LIHEAP Household Report - Federal Fiscal Year 2011*. Executive Office of Housing and Economic Development for Massachusetts. 24 July 2011. http://www.mass.gov/Ehed/docs/dhcd/cd/liheap/003fy2011householdrpt.pdf.

Small Business Innovation Research Program

Funding for the Small Business Innovation Research program (SBIR), a source of federal research and development grants for small businesses, could be in danger under the first round of cuts to discretionary programs. Eleven federal agencies participate in the SBIR program: DOD, the Departments of Health and Human Services, Agriculture, Commerce, Education, Energy, Homeland Security, and Transportation; the Environmental Protection Agency, National Aeronautics and Space Administration, and National Science Foundation. To date, over $28 billion has been awarded by the SBIR program to various small businesses nationwide. Cuts to any of these agencies could reduce the number of awards SBIR is able to provide to support small businesses.

In the last four years, Massachusetts' innovative companies have received 2,215 SBIR awards, totaling almost $759 million. After California, the Bay State receives the second highest number of awards annually and receives the most awards per capita in the nation.[7] In the 27-year history of the SBIR program, Massachusetts companies have received 17,361 awards, bringing $4 billion into the state to promote innovative research with commercial applications.[8] Firms like Watertown-based Radiation

Monitoring Devices (RMD) are working on the cutting edge of innovation. RMD recently received a $220,000 SBIR award to develop a device for measuring capillary blood flow and detecting the onset of shock, helping to advance our understanding of heart and vascular diseases.

Other Domestic Programs

Other programs that have already sustained a funding hit in recent years could face further reductions, such as child care subsidies for low-income families which have experienced a $62 million cut since the recession began. Head Start grants, which promote school readiness for children ages 3-5, could be reduced even further than the $3 million cut they have already experienced as compared to FY 2009 funding levels. Housing programs and mortgage assistance programs could also suffer.

Even entitlement programs that are technically exempt from this round of cuts, including MassHealth (Massachusetts' combined Medicaid and CHIP program), could face additional budgetary strain, as the

[7] "Small Business Innovation Research Awards." *SBIR.gov*. 08 Sept. 2011. http://www.sbir.gov/past-awards.
[8] "Small Business Innovation Research Awards." *SBIR.gov*. 08 Sept. 2011. http://www.sbir.gov/past-awards.

state is forced to shift money around to fill gaps in its budget. Already, state officials have been forced to pare back MassHealth benefits in recent years, such as eliminating certain dental benefits and scaling back coverage for some legal immigrants. Further reductions could follow.

Security Spending at Risk

Foreign Affairs

Over the next 10 years, $350 billion (of the total $917 billion) will need to be cut from our nation's security spending. The inclusion of foreign affairs in the definition of security spending makes it likely that these programs will sustain heavy cuts in order to avoid reductions to programs the military deems important, such as hardware. The foreign affairs category includes spending for anti-HIV/AIDS efforts, family planning programs, the Peace Corps, and any program within the State Department.

Medical Research

In addition to foreign affairs, medical research spending in these departments is a likely target for budget reductions. The FY 2011 budget for the DOD included $1.175 billion for research and development within the Defense Health Program. Of that amount, $675 million was designated for Congressionally Directed Medical Research Programs (CDMRPs), which fund research for a wide range of diseases and conditions including Alzheimer's, autism, and spinal cord injuries. Massachusetts researchers received $35 million in CDMRP grants - or more than five percent of the total amount awarded - in FY 2010.[9] Of this, $23.7 million in grants were awarded to teaching hospitals, including a group of researchers at Dana-Farber Cancer Institute who are using their $464,000 grant to improve our understanding of how breast cancer metastasizes in the body.

The Department of Veterans Affairs also runs an extensive medical research and development program, with an annual budget of approximately $590 million that could be targeted for cuts. The VA Boston Healthcare system - comprised of the Jamaica Plain, West Roxbury, and Brockton campuses - constitutes one of the largest VA research programs nationwide and could lose some of its funding.

[9] "Small Business Innovation Research Awards." *SBIR.gov*. 08 Sept. 2011. http://www.sbir.gov/past-awards.

STEP 2 – The Super Committee

Background

In addition to the initial round of $917 billion in spending cuts, a bipartisan joint committee is tasked with laying out a plan to reduce the deficit by at least another $1.2 trillion over 10 years. This "Super Committee" of 12 members of Congress – six from the Senate and six from the House of Representatives – has until November 23, 2011 to pass their proposal by a simple majority. Congress must then vote on the proposal by December 23, and the plan will become law with the support of a simple majority. The bill can be neither amended nor filibustered. President Obama could veto the plan should it arrive on his desk, which would then require a 2/3 vote of the House and Senate to override. If the Super Committee's plan passes, cuts could take effect as early as January 2012, depending on the timeframe provided.

The Super Committee's proposal can include any combination of spending cuts and tax increases. Since Congressional appropriators just will have slashed nearly $1 trillion in discretionary programs, it is likely that the Super Committee will look to entitlements programs like Medicare and Medicaid to hit their deficit reduction targets. In theory, the Committee could also consider tax increases, though Republicans have been generally adamant about refusing to consider tax increases as part of any debt deal. This leaves entitlement programs with a major target on their backs.

With Medicare and Medicaid making up about 23 percent of federal spending, these programs will certainly face scrutiny as the Committee searches for at least $1.2 trillion in deficit reduction. Many of the proposals that have been offered to save money in Medicare or Medicaid have a common, underlying problem. While they may save the federal government money in the short term, they also tend to shift major costs onto the shoulders of cash-strapped states, employers, seniors, low-income families, or other vulnerable populations.

Proposals from previous deficit reduction commissions provide useful insight into what the Super Committee may include in their plan regarding Medicare and Medicaid.

Massachusetts Impact

Domestic Spending at Risk

Medicare

Proposals to curb Medicare spending, which has been rising in response to the rapidly aging American population, include the following:

- **Raising the Medicare eligibility age gradually from 65 to 67**. While the Congressional Budget Office (CBO) has estimated that such a proposal would save the federal government $125 billion over 10 years, raising the Medicare eligibility age would shift healthcare costs onto seniors, employers, younger people, and states.

  Seniors in Massachusetts aged 65 and 66 would have to delay enrollment in Medicare, with the majority facing higher out-of-pocket costs – approximately $2,000 or more per year – for their health care.[10] Employers would have to pay more for their employees' healthcare, because older workers would stay on the job longer to remain eligible for their company's coverage. And, younger people could see their premiums rise because an influx of older – and thus unhealthier and more expensive – people into their insurance pool.

  A recent Kaiser Family Foundation report studied the impact of raising the Medicare eligibility age to 67 beginning in 2014. The federal government, the report said, would save a net $5.7 billion ($24 billion in lower Medicare spending on beneficiaries premiums offset by $18 billion in higher spending for Medicaid and other subsidies for low-income seniors). However, seniors, employers, and states would face $11.4 billion in additional costs – twice the net savings to the federal government.[11]

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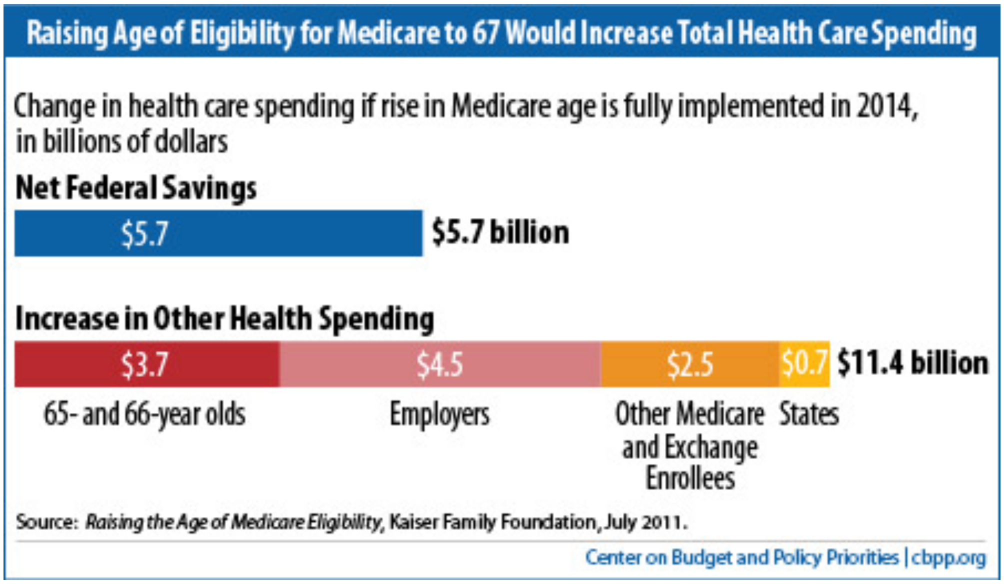
[10] *Raising the Age of Medicare Eligibility: A Fresh Look Following the Implementation of Health Reform*. Kaiser Family Foundation, July 2011.
[11] Ibid.



- **Cutting Medicare benefits**. Previous fiscal commissions have, among other things, recommended streamlining – and increasing – seniors' annual deductible for Medicare hospital and doctor coverage. Seniors would have to pay 20 percent coinsurance — that is, 20 percent of the costs — for any expenses above the deductible. Setting the deductible at $550, for example, would shift an estimated $110 billion onto the back of seniors.

- **Testing a pilot program with the goal of ending Medicare as we know it today**. The Super Committee could choose to test an idea proposed by Republican House Budget Committee Chairman Paul Ryan to privatize Medicare. Under the Ryan plan, seniors would receive a capped voucher to take into the private insurance market and purchase healthcare on their own, rather than enrolling in Medicare. The value of the voucher would grow far more slowly than healthcare inflation, leaving seniors to fill the gap out-of-pocket or go without healthcare services. While it is unlikely that the Super Committee will attempt to privatize Medicare entirely, they could test the idea on a smaller scale by piloting in the Federal Employees Health Benefits program, which provides health insurance for federal workers, for example.

- **Restricting the use of Medigap plans, which fill in coverage gaps left by standard Medicare benefits, such as costs for hospital care above Medicare's limit and co-insurance costs for**

skilled nursing facilities. Supporters of this proposal claim that seniors who have Medigap coverage use 25 percent more medical services than those who do not have the plans. Others argue that seniors simply require more healthcare services, and Medigap plans provide them access to the care they need. Restricting the use of Medigap plans could save the government about $53 billion.

Medicaid

While the specifics of the Super Committee's proposal have yet to be determined, states can expect that they will include a minimum of $100 billion in cuts to Medicaid over the next 10 years based on previous proposals. In FY 2012, Massachusetts will receive roughly $5 billion for its MassHealth program, which is the state's Medicaid and CHIP programs combined. Any reduction to the federal share of Medicaid could mean that children are unable to visit their doctors, seniors cannot afford nursing homes, and disabled individuals are denied care.

- Turning Medicaid from an entitlement program into a block grant was an idea included in the Republicans' FY 2012 budget proposal. Under their plan, the federal government would give states a lump sum for their Medicaid programs. States would be given added "flexibility" to operate their programs, though the amount the federal government would contribute to Medicaid would be capped at levels well below the current system. What this means in practice is that states would then be able to cut Medicaid benefits and roll back eligibility. States would be able to cut long-term care services for seniors with Alzheimer's, Parkinson's, and other chronic conditions; jeopardize the ability of millions of low-income children to see their doctor; and threaten access to services that allow Americans with disabilities – such as mental illness and multiple sclerosis – to live independently. While this proposal would save the federal government money in the short term, it would only shift costs onto states and the individuals who can least afford higher payments.

  Already, Medicaid is an efficient and lean program. A recent report from First Focus shows that the per person cost of serving an adult on Medicaid is 20 percent less than under private coverage, and for children it is 27 percent less. Medicaid has also done a better job of constraining healthcare cost growth over time: per enrollee, Medicaid costs have grown at 4.6

percent compared to 7.7 percent annual growth in private market premiums. The GOP proposal to "block grant" Medicaid does not trim the fat from the Medicaid; their plan cuts it to the bone. Converting Medicaid to a block grant would virtually guarantee that states are left with no choice but to restrict eligibility, reduce benefits, cut payments to doctors, or some combination of the three.

Medicaid is a safety net for those who may be working but are unable to afford their employer-sponsored insurance, whose employer does not offer insurance, or who are unable to work because of a severe disability or illness, such as an Alzheimer's patient in a nursing home. Slashing Medicaid benefits for millions of American will leave those individuals with nowhere to turn.

- "Blending" federal match rates for states' various Medicaid programs into one – lower – rate per state has been proposed as a way to save the federal government about $100 billion over the next decade. However, the savings to the federal government will likely shift additional costs to states, leaving governors with the options of cutting benefits, reducing provider payments, or restricting eligibility.

The Faces of Medicaid in Massachusetts

Bernadette Holbrook, now 63, developed early onset Alzheimer's when she was just 57 years old. She and her husband Alan, who still lives in Groton, worked hard and saved for their retirement. But the cost of Bernadette's care decimated their savings and forced her onto Medicaid. Alan kept Bernadette at home for as long as possible until she moved into a Marlborough nursing home (the average cost of a nursing home in Massachusetts is $113,000 per year). Alan had to retire early to care for his wife full-time. The couple depends on Medicaid to help them afford Bernadette's nursing home and on Medicare for Alan's healthcare needs.

Diane Taylor moved into a home in Everett with 10 other family members after her husband, a Vietnam veteran, passed away. Her granddaughter, now 13, was born with cerebral palsy. Thanks to Medicaid, Brittany is able to receive treatment at Children's Hospital, where just had major corrective surgery. Though still in a wheelchair, doctors say the surgery was successful. She should be able to walk with braces, and she plans on participating in the final weeks of the school year and going on her school's fieldtrips.

Her brother, Nicholas, was diagnosed at a young age with a rare disorder that causes bleeding in the lungs. He, too, depended on Medicaid to see his doctor and get the treatment he needed to save his life. Nicholas' condition is in remission for now, and he was picked for the all-star baseball team and nearly won his school's science fair. Diane and her family are extremely grateful for the care that the grandchildren were able to receive thanks to Medicaid.

Graduate Medical Education

Previous deficit reduction commissions have called for reductions in Indirect Graduate Medical Education (IME), Medicare payments to reimburse teaching hospitals for the added costs of treating severely ill patients. The Simpson-Bowles Deficit Reduction Commission, assembled by President Obama, included a proposal to reduce the IME adjustment by 60 percent - from 5.5 percent to 2.2 percent - which would result in a $10.9 billion loss to the U.S. economy.[12]

In Massachusetts, hospitals stand to lose $320 million a year and the state economy could face losses of up to $767 million.[13] The Boston Teaching Hospitals alone employ 77,800 people. Reducing IME payments by 60 percent could cost 5,115 jobs, including medical residents (physicians in training), their supervising physicians, nurses, clinical researchers, and other hospital staff. This would greatly contribute to the current medical workforce shortage, which is projected to reach 35,000 surgeons and 27,000 medical specialists by 2020.

These estimates do not take into account the indirect impact on employment. Teaching hospitals are often the largest employers in their communities and major economic engines. Thus additional job losses are likely across other business sectors, such as retail, service, and manufacturing that benefit from the direct expenditures of teaching hospitals and their employees. Businesses that are recipients of spending by hospital patients, patients' visitors, medical students and their visitors will also be negatively impacted by IME cuts.

These proposed cuts come on top of decisions made by states, including Massachusetts, to eliminate or drastically reduce Medicaid funding for medical education. Additionally, significant Medicare payment reforms to hospitals contained in the Affordable Care Act - which called for a total reduction of $155 billion - are just now being implemented.

Teaching hospitals play a critical role in training tomorrow's doctors, providing specialized services such as trauma centers, pediatric ICUs and transplant centers, and conducting groundbreaking medical

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[12] *Proposed Reductions in Medicare IME Payments to AAMC Teaching Hospitals: National and State Economic Impacts*. Publication. Tripp Umbach, Feb. 2011.

[13] Ibid.

research that save lives. Cuts proposed by previous deficit reduction commissions could have a devastating impact on the ability of teaching hospitals to fulfill these critical missions.

As a major driver of the economy, teaching hospitals are a unique resource and a significant factor in life sciences companies locating and growing in Massachusetts and in many other parts of the country. The U.S. has the world's best physicians and nurses because we have the best teaching hospitals. Significant cuts to Medicare IME payments could jeopardize the U.S.'s international status as a leader in the life sciences arena as our economy emerges from the worst recession in generations.

CLASS Act

Some proposals the Committee might choose to include could actually cost the government money in the long run and, thus, require increased taxes or force cuts to other programs to make up the difference. Several bipartisan commissions have recommended repealing the CLASS Act, a federal voluntary long-term care program created under health reform. While CBO projects that the CLASS Act will save an estimated $78 billion over the next 10 years, its critics claim that the legislation will place a burden on the Treasury beyond the budget window. They point out that the program could begin collecting premiums next year but would not start paying out benefits until workers are vested after five years. Without significant reforms, they say, the program will eventually require a large general revenue transfer or could face collapse.

Medicare Physician Payment Formula

Healthcare provider groups will fight to fix the flawed Medicare physician payment formula, which calls for unrealistic cuts to doctor reimbursements. However, the price tag of a permanent "doc fix" now stands at $300 billion and would require tax increases or significant cuts to other programs to offset the cost of repeal the Sustainable Growth Rate (SGR). Failure to address the formula – either through the Committee or some other means – would mean a nearly 30 percent reduction to physician payments starting January 1, 2012. A one or two year fix, rather than a full repeal of the formula, is also a possibility.

Other Programs at Risk

The Super Committee could look at any number of other areas in developing its proposal to reduce the deficit by at least $1.2 trillion in order to avoid automatic spending cuts. One possibility for savings would be to repeal aspects of the Affordable Care Act, such as the law's $15 billion Preventive Health Fund or money needed to implement the health reform law.

Step 3 – Automatic Spending Cuts

Background

If the Super Committee fails to report a proposal by November 23, 2011 - or if Congress fails to pass it by December 23 - $1.2 trillion in automatic spending cuts will occur beginning January 2013. If the Committee falls short of $1.2 trillion in deficit reduction, the automatic cuts will be triggered to make up the difference. Unlike in Step 1 of the initial round of $917 billion in spending cuts, this step does not allow for back-loading the cuts to avoid jeopardizing an already shaky economic recovery. In fact, the cuts included in this step are intended to be draconian in order to force a compromise within the Super Committee.

These cuts will be split 50-50 between defense and non-defense (or domestic) programs. However, it is important to note that the definition of "defense" spending differs from the definition of "security" spending that will be used to determine cuts in the initial round[14] of $917 billion in discretionary spending reductions. This round of cuts defines "defense spending" as only DOD spending and requires that at least half the automatic cuts come from this bucket.

The other half of the cuts - those from domestic spending - will come from across-the-board cuts to mandatory (e.g., farm subsidies) and discretionary spending (e.g., any program that relies on annual appropriations). Programs serving low-income individuals and families would largely be exempt from these cuts. Exempt programs include: Medicaid; Medicare benefits; Social Security; food stamps; military and civil employee pay rates; programs under the VA; and health reform's tax credits to help middle and low-income families pay for health insurance premiums.

In FY 2013 automatic cuts will be spread evenly across remaining federal programs, such as the NIH; the National Science Foundation; the Centers for Disease Control and Prevention; the Food and Drug Administration; the Securities Exchange Commission; and countless others. Tax credits included in the health reform law to help middle and low income families afford their health insurance deductibles, co-pays, and other cost-sharing expenses are not exempt because the they are not refundable.

[14] In the first round of discretionary cuts, "security spending" included as funding for the DOD, VA, DHS, and NNSA, the intelligence community management account, and international affairs.

Payment to Medicare providers are not exempt, and they are the only program that is reduced by a specified amount, as opposed to facing an across-the-board cut; cuts to Medicare doctors, hospitals, and nursing homes cannot exceed two percent. This would equal approximately $123 billion in cuts - including a cut of approximately $41 billion to hospitals - over 10 years and could impact provider access, making it harder for seniors to be able to get the care they need. According to a recent study by the American Hospital Association, an automatic two percent cut would also cost 194,000 jobs nationwide.[15]

The level of automatic cuts to defense and non-defense programs will depend on the degree of savings achieved by the Super Committee. The greater the savings achieved by the Super Committee, the smaller the automatic cuts.

If the Super Committee fails to report – or Congress fails to pass – its proposal entirely, the level of automatic cuts can be calculated by starting with the total deficit reduction goal of $1.2 trillion. That is reduced by 18 percent to account for "debt service" – money saved on interest payments by reducing our principal, leaving a gap of $980 billion. That number is then divided by nine, to spread the cuts evenly over the nine years from FY 2013 through FY2021. Thus, automatic cuts of $110 billion - or $55 billion from defense programs and $55 billion from non-defense programs - will occur each year.

If the Super Committee proposal reduces the deficit by only $800 billion, for example, automatic cuts totaling $400 billion will occur to make up the difference. The same formula as laid out above would apply, with the cuts to defense and domestic programs totally approximately $19.5 billion each.

The level of cuts is further broken down between discretionary spending and mandatory spending. Defense is almost entirely discretionary spending. For non-defense, a complex formula determines the level of sequestration that will be applied for the mandatory side and the discretionary side. If the Super Committee fails entirely, the required cut for discretionary spending would total approximately $39 billion while the cut from mandatory spending would be approximately $16 billion (totaling $55 billion each year).

[15] *The Negative Economic Impact of Cuts to Hospital Funding: Potential Jobs Loss*. Tripp Umbach, Sept. 2011.

If the Super Committee fails entirely, these cuts would occur in 2013:

	Defense Spending	Non-defense spending
Discretionary	$55 billion from DOD	Across-the-board reductions in the appropriations bills for the fiscal year, which Congress would have already enacted Total: $38 billion cut
Mandatory	N/A	Cuts to Medicare providers and insurance plans of up to two percent, or about $10 billion per year About $7 billion on other mandatory programs, mainly farm price supports. Total: $17 billion cut
Exempt	The President could choose to exempt war funding and military personnel funding.	Discretionary programs like veterans' benefits and Pell Grants would be exempt from those cuts Mandatory programs like Social Security, Medicare benefits, Medicaid, CHIP, food stamps, SSI, refundable tax credits such as the EITC, federal retirement

How the cuts are distributed in FY 2013 differs from that of FY 2014-2021.

For FY 2013, the spending reductions for discretionary programs are made through the "sequestration" process (the automatic across-the-board cuts). For fiscal years after (FY 2014-FY 2021), discretionary programs will be capped by an amount determined by the debt deal's formula outlined above. Congressional appropriators will then have to figure out how to operate within those new caps and report out spending bills that fall within their limits. If the spending bills exceed the statutory limitations, then automatic, across-the-board cuts will kick in to bring the spending bill below the cap. In other words, the cuts in FY 2013 (which will kick in after Congress has already passed their spending bills) would occur through across-the-board proportional reductions to funds provided in the appropriations bills. After that, the cuts would occur by lowering spending caps as required by the debt deal, with the Appropriations Committees deciding how best to allocated the allow funding.

The CBO chart below shows the estimated savings from the automatic cuts if the Super Committee's proposal is not enacted:

Estimated Savings from Automatic Reductions If No Savings Result from Enacting Legislation Originated by the Joint Select Committee on Deficit Reduction

(By fiscal year, in billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total, 2013-2021
Changes in Mandatory Spending										
Defense										
Budget authority	*	*	*	*	*	*	*	*	*	*
Outlays	*	*	*	*	*	*	*	*	*	*
Nondefense										
Budget authority	-16	-17	-18	-19	-19	-19	-20	-21	-22	-170
Outlays	-16	-17	-18	-19	-19	-19	-20	-21	-22	-170
Total										
Budget authority	-16	-17	-18	-19	-19	-19	-20	-21	-22	-171
Outlays	-16	-17	-18	-19	-19	-19	-20	-21	-22	-171
Changes in Discretionary Spending										
Defense										
Budget authority	-55	-55	-55	-55	-55	-55	-55	-55	-55	-492
Outlays	-33	-46	-51	-53	-54	-54	-54	-54	-54	-454
Nondefense										
Budget authority	-39	-38	-37	-36	-36	-35	-34	-33	-33	-322
Outlays	-21	-32	-35	-35	-36	-35	-34	-34	-33	-294
Total										
Budget authority	-94	-93	-92	-91	-90	-90	-89	-88	-87	-813
Outlays	-54	-78	-86	-88	-90	-89	-89	-88	-87	-749
Outlays Resulting from Sequestration of Mandatory Spending[a]	2	3	3	4	3	3	4	4	5	31
Changes in Debt-Service Costs[b]	-1	-2	-5	-10	-17	-23	-30	-37	-44	-169
Total Impact on the Deficit	**-68**	**-94**	**-105**	**-114**	**-122**	**-129**	**-135**	**-142**	**-148**	**-1,057**

Source: Congressional Budget Office.

Notes: For enforcement purposes, section 302 of the Budget Control Act establishes a goal of $1.2 trillion in reductions and stipulates that 18 percent of that amount be considered reduced spending for debt service, with the remainder split equally between defense and nondefense spending. In this analysis, the $1.2 trillion goal is allocated as follows:

Total Goal for Reductions (Billions of dollars)	-1,200
Stipulated reduction for debt service	-216
Required reduction in defense budgetary resources	-492
Required reduction in nondefense budgetary resources	-492

* = between -$500 million and zero. "Budget authority" refers to the authority provided by law to incur financial obligations, which eventually result in outlays.

a. These estimates reflect subsequent changes in spending for some programs that would offset estimated savings stemming from the original reductions.

b. "Debt service" refers to a change in interest payments from a change in projected deficits.

According to CBO, this step would result in cuts of approximately nine percent to domestic programs (minus those that are exempt) and a seven percent cut to defense programs (assuming that the President will exempt military personnel funding).

Massachusetts Impact

While the level of cuts to programs in Massachusetts will depend on how things unfold with the Super Committee, even modest cuts to federal agencies can have a drastic impact on the level of state grants provided by those agencies. A two or three percent reduction in a federal agency's budget can result in a 50 or 60 percent reduction in state and local grants to avoid layoffs or cuts to other core operations. Being that states depend on the federal government for an average of 35 percent of their total spending, these reductions could seriously hamstring Massachusetts' ability to meet the needs of its citizens.

Access to Healthcare Providers

Massachusetts continues to experience a shortage of a wide range of health care providers, particularly those in family medicine and internal medicine. Data from the 2010 Practicing Physician Survey indicate that retention rates among physicians in Massachusetts is worsening, with 35 percent of practicing physicians reporting that their ability to retain doctors has become more difficult over the past several years. Yet, vacancy rates remain high throughout the state, with 63 percent of practicing physicians reporting difficulty in filling vacancies. The debt deal, which requires a reduction of up to two percent in Medicare provider reimbursements should the Super Committee fail, could further exacerbate provider shortages and cause significant access problems for seniors.

National Institutes of Health

If the Super Committee fails entirely, the subsequent cuts to domestic programs would equal approximately seven percent of these programs' current budgets. A seven percent cut to NIH would equal approximately $2.2 billion less for medical research. This would be, by far, the largest cut in the programs history and would come on top of the $317 million in budget cuts that the agency has already experienced this year. Ongoing research projects in Massachusetts and throughout the country would be jeopardized as the size and number of research grants available shrank.

Defense

Defense programs would face heavy reductions should the Super Committee fail, since half of the subsequent across-the-board cuts would have to come from the defense sector. These cuts could pose a threat to Massachusetts companies, which received $15.6 billion in defense contracts in FY 2009, or 85 percent of all contract dollars awarded to the state. The defense industry also supported more than 115,000 jobs that year. The defense industry has been growing in economic importance to Massachusetts since 2001, when total defense related economic activity in Massachusetts totaled $10.6 billion. It has since more than doubled to $26 billion and supports nearly 50,000 additional jobs.[16]

In FY 2009, four businesses received 65 percent of all federal defense contracts to Massachusetts. These entities then subcontracted work to thousands of smaller businesses, serving as engines of innovative technologies throughout the Bay State. Contracts awarded to these companies and organizations - Raytheon ($4.58 billion), General Dynamics ($2.13 contracts), MIT ($1.75 billion) and General Electric ($1.68 billion) - keep Massachusetts residents at work and keep the state at the forefront of technological innovation.

Massachusetts companies are conducting precision manufacturing, engineering, and R&D that is vital to military operations, and Massachusetts possess human intellectual capital, which has been the key draw in bringing companies to the area. While these factors would favor Massachusetts companies, massive cuts to defense programs on top of the $350 billion cut under phase one of the debt deal could still have a major impact on this industry.

[16] *The Defense Industry in Massachusetts: Current Profile and Economic Significance*. Issue brief. Economic and Public Policy Research Unit, University of Massachusetts Donahue Institute, Dec. 2010.

Conclusion

The economic downturn has forced layoffs and battered state budgets across the country. While Massachusetts is no exception, the state has weathered the recession better than most thanks in large part to the strength of its technology, defense, higher education, and health sectors. As a hub for the world's premier academic and research facilities, Massachusetts attracts and retains a highly educated workforce and cutting-edge companies. Because of the competitiveness of these institutions, Massachusetts also receives a disproportionately large share of federal grants and contracts to support everything from its health care programs to medical research to the development of defense technologies.

While this source of funding has been beneficial to the Bay State, it also means we are especially vulnerable to drastic reductions in federal spending. Currently, a third of the state budget comes from federal funds that now face the possibility of significant cuts over the 10 years of the debt deal. While most of the debt deal details are yet to be filled in and much will depend on the work of the Super Committee, the parameters of the new law provide strong hints about the areas that are most at risk. MassHealth is certainly near the top of the list, as the program that ensures healthcare access for 1.3 million Massachusetts residents receives half its funding through the federal government. Medicare, on which seniors have relied for decades, has been named repeatedly as a target for anything from minor tweaks to fundamental restructuring. NIH funding and small businesses grants, which create and sustain high-paying American jobs, are on shaky ground.

Perhaps the greatest underlying concern is that the debt deal's spending cuts will undermine job growth. Cut NIH funding and researchers are out of work. Reduce SBIR grants and small businesses shut their doors. Block transportation funding, and construction companies crumble along with our roads and bridges. With more people out of work, the state's tax revenue base shrinks. The budget gap widens. More programs and services are slashed. And the vicious cycle continues.

The best way to reduce our debt and deficit and jump-start our economy is to put people back to work. The challenge, as this process moves forward, is to ensure this priority remains at the forefront.

Super Committee Timeline - 2011

September 8
First organizational meeting

September 13
First public hearing

September 22
Deadline for Congress to consider a resolution of disapproval for first $917 billion cut

October 1- December 31
Timeframe in which both houses of Congress must vote on a Balanced Budget Amendment

October 14
House and Senate committees must submit recommendations to the Super Committee

November 23
Deadline for the Committee to vote on a plan with at least $1.2 trillion in deficit reduction

December 2
Deadline for the Super Committee to submit report and legislative language to the President and Congress

December 23
Deadline for both houses to vote on the Super Committee's bill

If nothing is passed, automatic cuts will go into effect